

## Case Study: Repayment of default amount is not enough

*Ashish is a 30 year old and he has been working for five years; he wanted to buy a house and for that he decided to apply for a housing loan. After carefully researching online and talking to a few of his friends and colleagues he decided to apply for a loan with SBI. Despite fulfilling the eligibility criteria and submitting the required documents his loan application was rejected. He could not understand the reason for it.*

*The SBI Home Loans representative told him that his credit score was low (for the bank) which led to the rejection of his loan application. Ashish was surprised as he had two credit cards which he used responsibly and always paid his dues on time. He decided to get his Credit Information Report so that he could figure out the reason for his low rating.*

*The CIR revealed that he had missed on repaying the last two installments of his education loan; he had moved cities and had failed to inform the bank. So any notices sent to him would not have reached him and now due to those defaults the asset has been classified as a “SUB” which denoted a sub-standard asset. Any asset which remains a NPA (Non-Performing Asset) for more than a year is classified as a Sub Standard Loan.*

*Now that Ashish knew what the problem was he decided to solve it. He contacted the bank from where he had taken the loan, checked what the total dues were (the pending EMIs plus the accumulated interest and fines. He paid the dues, got a NOC from the bank after a little follow and was relieved at having taken care of the problem. He waited for a few weeks to check his credit report.*

*He was disappointed, though the loan was no longer reflected as a “Sub” asset and his score did improve marginally but it still was not at a level at which the bank would sanction him a loan. Though he knew that there were lenders that offered **loans for bad credit** scorers too but he did not want to take that route as these loans were generally available at very steep rates.*

## **Why Repaying the Dues is Not Enough?**

Are you also confused like Ashish and wondering why the score did not improve drastically and why is it still difficult for him to get a home loan sanctioned? Well we have an explanation for you.

Repaying the loan meant that the overdue status of the loan was taken care of but the missed EMIs will continue to reflect in the CIR. The CIR carries the repayment record of last 36 months and two missed EMIs are sure to be cause concern for any prospective lender and lower the credit score. Repayment history is the most crucial factor in credit score and it has a 35% weightage in the score calculation. In Ashish's case there were no other loans; his credit trail was not too deep so even a single missed payment would have a great impact on the overall credit rating.

If someone was to have multiple loans which have been running for a while and they default on a single payment then there would be an impact but it would be lesser than what was faced by Ashish. The education loan being the first loan does set a kind of tone for the credit trail so one needs to be very careful in repaying it. Two missed payments for the first and only loan in the CIR does not present a healthy credit picture.

## **What Should Ashish do Now?**

The older the default the lesser its importance is in the eyes of the future lenders. Ashish should continue to be a responsible credit card user, keep his credit utilization ratio less than 30%, he should remember to pay dues on time and should not make any further loan applications till he is sure about his credit score acceptance. Improving the score takes time and with time the score will become better.

There is no quick fix the credit score improvement, he has taken the step in the right direction by paying the complete dues and the results are sure to follow in time!

Source: [www.alphaideas.in](http://www.alphaideas.in)